



25 Sigourney Street
Hartford CT 06106-5032

STATE OF CONNECTICUT DEPARTMENT OF REVENUE SERVICES

IP 2006(13)

INFORMATIONAL PUBLICATION

Sales and Use Taxes on Returned Goods, Even Exchanges, and Trade-Ins

Purpose: This Informational Publication describes:

- The sales and use tax treatment by retailers of customer returns of goods, exchanges, manufacturers' warranties, retailers' warranties, and trade-ins; **and**
- The procedures for replacing items of tangible personal property under manufacturers' warranties or retailers' warranties.

This publication also discusses the sales and use tax exclusion for the trade-in of items of tangible personal property.

These rules for returns or exchanges of goods are subject to each retailer's store return policy.

Effective Date: Effective upon issuance.

Statutory Authority: Conn. Gen. Stat. §§12-407(a)(8)(A) and (B), 12-407(a)(9)(A) and (B), 12-407(a)(37)(CC), 12-412(47); and Conn. Agencies Regs. §12-407(2)(i)(DD)-1.

Returned Goods: When a customer purchases a taxable item of tangible personal property and returns it to the retailer for cash or credit within 90 days from the date of purchase, the customer is entitled to a refund of sales tax based on the portion of the purchase price returned by the retailer to the customer. The customer must present a sales receipt showing the date of purchase and tax paid on the original sale. If the goods are returned after 90 days from the date of purchase or without a receipt, the sales tax is not refunded to the customer.

Example 1: A customer purchases a bicycle for \$100 plus \$6 sales tax and returns it to the retailer within 90 days from the date of purchase. The customer presents the sales receipt to the retailer. The retailer refunds \$100 to the customer. The customer is entitled to a sales tax refund of \$6.

Example 2: A customer purchases a bicycle for \$100 plus \$6 sales tax and returns it to the retailer within 90 days from the date of purchase. The customer presents the sales receipt to the retailer. The retailer refunds \$90 to the customer and charges a \$10 restocking fee. The customer is entitled to a sales tax refund of \$5.40 ($\$90 \times 6\% = \5.40).

Example 3: A customer purchases a bicycle for \$100 plus \$6 sales tax and returns it to the retailer 120 days after the date of purchase. The retailer refunds \$100 to the customer. The customer is not entitled to a sales tax refund, whether or not the customer presents a receipt to the retailer, because the bicycle was returned after 90 days from the date of purchase.

Even Exchanges of Goods: If a customer purchases a taxable item of tangible personal property from a retailer and exchanges it for an identical or similar item of tangible personal property priced the same, there is no tax due on the exchange even if the original item is exchanged after 90 days from the date of purchase. The Department of Revenue Services (DRS) does not require the customer to produce the original sales receipt or other verification of the date and place of purchase. The exchange of an item of tangible personal property for an identical or similar item priced the same is considered an extension of the original sales contract. If a retailer gives the customer cash or store credit for the exchange instead of an identical or similar item and the customer uses the cash or store credit to purchase an identical or similar item at no additional cost, the purchase is not taxable provided the retailer can track or show that the cash or credit was used to purchase an identical or similar item of the same price. The retailer's books and records must contain sufficient information to substantiate that the transaction was an even exchange. The DRS Audit Division is available to review whether a retailer's procedures for documenting even exchange transactions are satisfactory.

For purposes of an even exchange, an identical or similar item is the same type of commodity priced the same even if the item given in exchange is manufactured by a different company than the item originally purchased. Examples of an even exchange of an identical or similar item include the following as long as the items being exchanged are the same price:

- A DVD exchanged for a DVD containing a different movie;
- A pair of skis exchanged for another pair of skis in a different size;
- A box fan for an oscillating fan; **or**
- A vacuum cleaner for one of a different brand.

Examples of items that are not identical or similar items for purposes of this even exchange rule include:

- A pair of skis for a snowboard;
- A DVD for a videotape; **or**
- A lawn mower for a snow plow.

When a retailer replaces taxable items of tangible personal property with identical or similar items because of a defect or malfunction of the item under a manufacturer's warranty or the retailer's warranty and no cash changes hands, the transaction is an even exchange. Sales and use taxes are not due on the replacement item even if the customer does not produce a sales receipt or the goods are replaced after 90 days from the date of purchase. The replacement of the item under warranty is not considered a rescission of sale subject to the 90-day or sales receipt requirements for returned goods. The retailer does not owe use tax on the cost of the replacement item.

If a retailer gives the customer a cash refund or store credit for the item returned under a manufacturer's warranty or retailer's warranty instead of replacing the original item with an identical or similar item and the customer uses the cash or store credit to purchase an identical or similar replacement item at the same cost as the original item, the purchase is not taxable. The retailer must show that the cash or store credit was used to purchase an identical or similar replacement item at no additional cost under the warranty.

Where a retailer issues a cash refund or store credit for an item returned under a manufacturer's warranty or store warranty and the customer does not exchange the defective item for an identical or similar item, the retailer must refund the tax paid on the original purchase provided the customer shows a sales receipt **and** the goods are returned within 90 days from the date of purchase. (See *Returned Goods*.)

If there is a charge to the purchaser for the exchange of an item, for example, if the customer receives a more expensive replacement item of tangible personal property than the item originally purchased, the sales price of the replacement item is taxable. The retailer must charge tax on the entire sales price of the replacement item including cash or credit applied to the purchase from the original sale and any additional amount paid toward the replacement item. The customer is entitled to a cash or credit refund of tax on the original purchase if the customer returns the item within 90 days from the date of purchase and presents a sales receipt showing tax paid on the original purchase.

If a customer exchanges an item for a less expensive replacement item of tangible personal property than the item originally purchased, the sales price of the replacement item is taxable. The retailer must charge tax on the entire sales price of the replacement item. The retailer refunds the customer the difference between the sales price of the original item and the sales price of the less expensive item. The customer is entitled to a cash or credit refund of tax on the original purchase if the customer returns the item within 90 days from the date of purchase and presents a sales receipt showing tax paid on the original purchase.

If a customer purchases a taxable item of tangible personal property from a retailer and exchanges it for another taxable item of tangible personal property that is not an identical or similar item, the rules discussed in *Returned Goods* apply.

Example 1: A customer purchases a new CD for \$15 plus \$.90 sales tax and returns it unopened to the retailer after 90 days from the date of purchase. The customer exchanges the \$15 unopened CD for another new CD costing \$15 by a different artist and made by a different record label. The retailer credits \$15 from the return of the unopened CD towards the purchase of the new \$15 CD. The retailer does not charge the customer any amount for the exchange. The retailer does not apply tax to the sales price of the new CD even though the exchange was after 90 days from the date of purchase.

Example 2: A customer discovers that a toaster received as a gift is defective. The customer returns it to the Customer Service desk of a retailer for another toaster without a sales slip. The original toaster costs \$25. Customer Service accepts the defective toaster and gives a more expensive model of the toaster to the customer at an additional charge of \$10 to the customer. The customer is charged 6% sales tax on the \$35 sales price for the upgraded

model. The sales tax is not returned or credited to the customer on the original purchase.

Example 3: A customer purchases a hair dryer that is defective. The customer returns it without the sales slip to the Customer Service desk for another hair dryer. Customer Service accepts the hair dryer but does not exchange it at the Customer Service desk. Instead, Customer Service issues a cash refund or store credit for the hair dryer. The customer purchases another hair dryer from the retailer with the cash refund or store credit for the same sales price as the original hair dryer returned under warranty. The retailer does not charge tax on the new hair dryer provided the retailer substantiates in its records that the hair dryer was evenly exchanged.

Example 4: A customer purchases a hair dryer for \$20 that is found to be defective. The customer returns it with the sales slip to the Customer Service desk of a retailer for another hair dryer within 90 days from the date of purchase. Customer Service accepts the defective hair dryer under a manufacturer's warranty or store warranty and gives a \$25 hair dryer to the customer for an additional charge of \$5. The sales tax paid on the \$20 hair dryer is credited to the customer under the refund rules because the customer furnished the sales receipt and the hair dryer is returned within 90 days from the date of purchase. The retailer applies tax to the additional charge of \$5 on the exchange because the tax paid on the original hair dryer was credited toward the purchase of the new hair dryer.

Exchanges of Clothing and Footwear: If a customer returns one or more exempt items of clothing or footwear (originally costing less than \$50) in exchange for a taxable item of clothing or footwear (costing \$50 or more), the sales price and gross receipts of the taxable clothing or footwear is not reduced for purposes of the clothing exemption even if the original exempt item or items are returned to the retailer within 90 days from the date of purchase and a sales receipt is presented. When clothing or footwear (originally costing less than \$50) is exchanged for another article of clothing or footwear (costing \$50 or more), the price of the clothing or footwear being purchased before the credit for the returned clothing or footwear is the amount used to determine whether the clothing and footwear exemption applies to the purchase. See **Special Notice 2003(3)**, *Sales and Use Taxes on Retail Sales of Clothing*, for more information.

Example 1: A customer purchases two new shirts for a total of \$40 that are exempt from tax. The customer exchanges them for a new \$80 shirt. The tax applies to the \$80 shirt even if the two \$40 shirts are returned to the retailer with the sales receipt within 90 days from the date of purchase.

Example 2: A customer purchases a new taxable pair of pants for \$60 and exchanges the pants for a new \$80 pair of pants within 90 days from the date of purchase. Neither pair of pants qualifies for the clothing exemption because each pair of pants costs \$50 or more. The customer shows the original sales receipt to the retailer. The customer is entitled to a cash or credit refund of \$3.60 (6% of \$60) sales tax. The retailer applies the credit for the \$60 pair of pants plus \$3.60 tax paid on these pants towards the purchase of the \$80 pair of pants plus \$4.80 (6% of \$80) tax on the new pair of pants. The customer owes \$20 (\$80 - \$60) for the new pair of pants plus \$1.20 (6% of \$20) tax after the credit for the exchange is subtracted from the sales price.

Trade-Ins: There is an exclusion from sales and use taxes for an item of tangible personal property traded in with a retailer and accepted in part payment toward the purchase of the same kind of item provided the retailer resells the item being traded in in the regular course of business. When a retailer gives credit to a purchaser for an item of tangible personal property traded in as part payment toward the purchase of a like kind item, the tax applies to the sales price or gross receipts of the item being purchased after the trade-in credit is deducted.

For the trade-in exclusion, the following must occur:

- The item traded in must be a like-kind item as the item being purchased. A **like-kind item** is defined for purposes of trade-ins to mean that the traded-in item of tangible personal property is of the same nature, character, or class of property as the property being purchased without regard to its grade or quality. The item traded in must be of the same general classification, based on its nature and function, as the item purchased and is not required to be of the specific type within the class. The trade-in of clothing for clothing, footwear for footwear, clothing for footwear, women's clothing or footwear for men's clothing or footwear, musical instruments for musical instruments, furniture for furniture, jewelry for jewelry, sporting goods for sporting goods, and household appliances for household appliances are examples of general classifications of like kind items.

- The item traded in must be resold in the regular course of business by the retailer accepting the trade-in or by another retailer.
- The item traded in must be a **used item**. The purchaser must receive credit in an amount less than the original purchase price for the traded-in item to be considered a used item. The value given the item traded in must be reasonable. For example, the fair market value of similar property of like quality, quantity, and age sold or traded in under comparable conditions would indicate the value of the item being traded in. A used item may be traded in for the purchase of a new or used like-kind item. The exchange of a new item toward the purchase of a like-kind item is not treated as a trade-in but instead is considered a return or an exchange of an item. See *Returned Goods* and *Even Exchange of Goods* for further information.

Two or more items may be traded in for a single item provided all items being traded in are like-kind items as the item being purchased.

When a retailer accepts an item of tangible personal property as part payment toward the purchase of a like-kind item, the retailer must identify the item traded in and the like-kind item purchased on the sales invoice for the transaction. For example, the items may be identified by make, model number, serial number, and year the items were manufactured.

A trade-in must occur in a single transaction even if the delivery of both items is not simultaneous.

Example 1: A customer trades in a used lawn mower with a fair market value of \$500 toward the purchase of a new lawn mower costing \$2,000. The retailer places an order with the manufacturer for the specific make and model of the new lawn mower purchased by the customer. The retailer takes delivery of the used lawn mower when the order is placed for the new lawn mower. The retailer delivers the new lawn mower to the customer's home one week later when the retailer receives it from the manufacturer. The sales tax applies to \$1,500 which is the amount after the \$500 from the used lawn mower was deducted from the sales price of \$2,000 for the new lawn mower. This transaction qualifies for the trade-in exclusion because the trade-in of the used lawn mower toward the purchase of a new lawn mower is the trade-in of a like-kind item and the trade-in occurred under a single transaction even though delivery of both lawn mowers did not occur simultaneously.

Example 2: A customer trades in a used watch with a fair market value of \$500 toward the purchase for \$1,200 of a new couch. The tax applies to the sales price of \$1,200 or the amount before the trade-in credit because the watch and couch are not like-kind items.

Example 3: A customer trades in a used refrigerator with a fair market valued of \$400 toward the purchase for \$1,000 of a new stove. The tax applies to the sales price of \$600 which is the amount after the trade-in credit because the refrigerator and stove are like-kind items and the customer traded in a used item.

Examples of Like-Kind Items for the Trade-In

Exclusion: The following are examples of like-kind items with the same nature, character, and class as the item being purchased for purposes of the trade-in exclusion:

- A used guitar is traded in toward the purchase of a new or used drum set.
- A used sofa is traded in toward the purchase of a new or used table.
- A used ring is traded in toward the purchase of a new or used watch.
- A used refrigerator is traded in toward a new or used stove.
- A used hockey stick is traded in toward a new or used pair of skis.
- Used footwear is traded in toward a new or used item of clothing.

Other Trade-In Provisions: See Conn. Gen. Stat. §12-430(4) and Conn. Agencies Regs. §12-426-16a for information about the trade-in of motor vehicles, vessels, farm tractors, and snowmobiles. See Conn. Gen. Stat. §12-430a for information about the trade-in of certain motor-powered construction equipment or machinery.

Effect on Other Documents: This publication amplifies **Special Notice 2003(3)**, *Sales and Use Taxes on Retail Sales of Clothing*.

Effect of This Document: An Informational Publication issued by the Department of Revenue Services (DRS) addresses frequently asked questions about a current position, policy, or practice, usually in a less technical question and answer format.

For Further Information: Call DRS during business hours, Monday through Friday:

- **1-800-382-9463** (in-state); or
- **860-297-5962** (from anywhere)

TTY, TDD, and Text Telephone users only may transmit inquiries anytime by calling 860-297-4911.

Forms and Publications: Forms and publications are available anytime by:

- **Internet:** Visit the DRS Web site at www.ct.gov/DRS to download and print Connecticut tax forms; or
- **Telephone:** Call **860-297-4753** (from anywhere), or **1-800-382-9463** (in-state) and select **Option 2** from a touch-tone phone.

Paperless Filing/Payment Methods (fast, easy, free, and confidential):

- **For business returns:** Use *Fast-File* to file sales and use taxes, business use tax, room occupancy tax, estimated corporation business tax, business entity tax, attorney occupational tax, nursing home provider fee, admissions and dues tax, or withholding tax returns over the Internet. Visit the DRS Web site at www.ct.gov/DRS and click on *File/Register OnLine*.

- **For payment of business taxes other than those listed above:** Use *Fast-File* to pay your business taxes over the Internet or by phone. Visit the DRS Web site at www.ct.gov/DRS and click on *Electronic Services* for a list of eligible taxes. The ACH debit method is used to make the transfer. No preregistration is required.
- **For resident income tax returns:** Use *WebFile* to file personal income tax returns over the Internet. Visit the DRS Web site at www.ct.gov/DRS and click on *File/Register OnLine*.
- **For electronic filing of income tax extensions, estimated payments, and for electronic bill payments:** Use *WebFile* to electronically file personal income tax returns over the Internet. You can also use *WebFile* to make an electronic income tax payment for a prior year. Visit the DRS Web site at www.ct.gov/DRS and click on *File/Register OnLine*.

DRS E-News Service: Get connected to the latest news from DRS. Receive notification by e-mail of changes to legislation, policies, and procedures. **DRS E-News** is easy to sign up for – visit www.ct.gov/DRS and follow the directions. Subscription services are available for employer's withholding tax, *Fast-File* information, Alerts, News – Press Releases, and Top 100 Delinquency List.